

Message Text

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AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY PARIS

USNMR SHAPE BE

USCINCEUR VAIHINGEN GER

C O N F I D E N T I A L SECTION 01 OF 02 NATO 08486

E.O. 11652: GDS

TAGS: MARR NATO

SUBJECT: MEETING OF CENTRAL EUROPE PIPELINE POLICY
COMMITTEE (CEPPC) AT DEPUTY PERMANENT REPRESENTATIVE
LEVEL, 2 SEPTEMBER 1977

REF: USNATO 8083, 250856Z AUG 77

SUMMARY. IN AN ATTEMPT TO FINISH THE PACKAGE SETTLEMENT
OF THE CENTRAL EUROPE PIPELINE SYSTEM (CEPS) FINANCIAL
PROBLEMS WHILE THE FRENCH REP (DE LA FERRIERE) WAS STILL
IN NATO, DEPUTY PERM REPS MET ON 2 SEPTEMBER. POINTS
CONCERNING TVA TAX AND FUEL WERE RESOLVED, LEAVING
POINTS 7, 8, AND 11 FOR POSSIBLE RESOLUTION AT THE NEXT
MEETING ON 23 SEPTEMBER. END SUMMARY.

1. DEPUTY PERM REPS MET ON 2 SEPTEMBER TO CONTINUE THE
DISCUSSION ON REMAINING POINTS OF THE PROPOSED COMPROMISE
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AGREEMENT COVERING FINANCIAL ASPECTS OF THE CEPS. HIGH-
LIGHTS OF THE DISCUSSION ARE KEYED TO THE DRAFT GENERAL
COMPROMISE AGREEMENT (AC/120-R/242, ANNEX II):

A. POINT 7. CHAIRMAN (BUWALDA) NOTED THAT IT WOULD NOT
BE POSSIBLE TO BASE AN AGREEMENT ON THE GUARDING CRITERIA
ACCEPTED AT CENTRAL EUROPE PIPELINE OFFICE (CEPO) BECAUSE

THE WORKING GROUP HAD NOT YET ESTABLISHED SUCH CRITERIA. HE SUGGESTED INSTEAD THAT THE COMPROMISE AGREEMENT SHOULD INDICATE THAT HOST NATIONS WOULD NOT CHARGE THE CEPS WITH MORE THAN FOUR GUARDS PER DEPOT. THEY COULD, HOWEVER, ADD AS MANY GUARDS AS THEY WISHED AT THEIR OWN EXPENSE. THE FRENCH REP (DE LA FERRIERE) PROPOSED A LESS LIMITING WORDING WHICH SIMPLY SAID THAT HOST NATIONS WOULD ABIDE BY THE EVENTUAL GUARDING AGREEMENT AND THAT, AS FAR AS POSSIBLE, THEY WOULD ATTEMPT TO REDUCE GUARDING COSTS THROUGH TECHNICAL INSTALLATIONS AND THAT THEY WOULD LIMIT ANY NEW PERSONNEL FOR GUARDING PURPOSES. THE BELGIAN REP (ADAM) PREFERRED THE FRENCH VERSION WHICH LEFT MORE FLEXIBILITY, WHEREAS MOST OTHERS PREFERRED THE CHAIRMAN'S SOLUTION WHICH WOULD LIMIT FUTURE CEPS EXPENDITURES. THE US REP (GLITMAN) SUGGESTED THAT THE CHAIRMAN'S SUGGESTION COULD BE LEFT SUFFICIENTLY FLEXIBLE TO PROVIDE A POSSIBILITY FOR CASE-BY-CASE APPROVAL OF GUARDING OF REMOTE PUMPING STATIONS (THE PARTICULAR FRENCH CONCERN) WITHOUT CONSTITUTING A BLANK CHECK. THE CHAIRMAN DIRECTED THE SECRETARY TO ATTEMPT TO AMALGAMATE THE TWO VERSIONS TO ACCOMPLISH THAT PURPOSE.

B. POINT 8. THE CHAIRMAN PROPOSED A NEW WORDING WHICH WAS INTENDED TO REINFORCE THE CONTRIBUTING NATIONS' RIGHT TO CONSULTATION AND AGREEMENT BEFORE THE ACCEPTANCE OF ANY PORTION OF THE COSTS OF NEW SECURITY PROVISIONS BASED
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ON NATIONAL LEGISLATION. THE CANADIAN REP (BACON) ALSO PROPOSED A FORM OF WORDING TO ACCOMPLISH THE SAME END. THE FRENCH REP AGAIN PROPOSED A LOOSER WORDING WHICH WAS AIMED AT PERMITTING ALL HOST NATIONS TO CHARGE THE CEPS FOR SECURITY COSTS NOT EXCEEDING THOSE OF THE NATION WITH THE MOST STRINGENT REGULATIONS. AFTER SOME DISCUSSION, A TOUR DE TABLE INDICATED THAT ALL OTHER REPS PREFERRED THE CHAIRMAN'S FORMULATION AND THE FRENCH REP WAS REQUESTED TO RECONSIDER HIS POSITION.

C. POINT 9. THE FRENCH REP PROPOSED A WORDING UNDER WHICH HOST NATIONS WOULD AGREE TO REIMBURSE OR TO EXEMPT THE SYSTEM FROM ALL IDENTIFIABLE TVA TAXES. THIS PROPOSAL WAS ACCEPTED.

D. POINT 10. THE FRENCH REP PROPOSED A NEW WORDING INDICATING THAT HOST COUNTRIES AGREED EITHER TO AUTHORIZE THE USE OF DOMESTIC FUEL OIL OR HEATING FUEL OR TO DIMINISH THE TAXES ON NORMAL FUEL TO BRING ITS PRICE DOWN TO THE SAME LEVEL AS DOMESTIC FUEL. THIS PROPOSAL WAS ACCEPTED.

E. POINT 11. THE FRENCH REP CONFIRMED THAT HIS AUTHORITIES COULD NOT AGREE TO EXEMPT COMMERCIAL CEPS MOVEMENTS FROM PROFITS TAX. HIS AUTHORITIES WERE, HOWEVER, NOW AGREED ON A RE-EXAMINATION TO REDUCE THE AMOUNT OF SUCH TAXES TO BE APPLIED TO THE CEPS. HE COULD NOT CONFIRM THE AMOUNT OF THE REDUCTION, BUT BELIEVED IT WOULD BE FROM THE PRESENT 10 PCT TO PERHAPS AS LOW AS 5 PCT. US REP INDICATED HE STILL BELIEVED THAT THE PRINCIPLE OF NON-TAXATION OF AN ALLY BY ANOTHER ALLY WAS IMPORTANT. HE RECOGNIZED, HOWEVER, THE PROBLEM FACING THE FRENCH AUTHORITIES, BUT COULD NOT GIVE HIS APPROVAL

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TO ANY EVENTUAL SOLUTION UNTIL IT BECAME CLEAR THAT THE RESIDUAL PROFITS TAX WAS NO MORE THAN A TOKEN ONE. THE FRG REP (BOSS) AGREED THAT THE GENERAL CLIMATE HAD ADVANCED TO THE POINT INDICATED BY HIS US COLLEAGUE AND THAT NO AGREEMENT COULD BE REACHED UNTIL FRANCE HAD INDICATED THE AMOUNT OF THE REDUCTION. THE CHAIRMAN REQUESTED THAT THE FRENCH REP ATTEMPT TO HAVE A CLEARER IDEA OF THE REDUCTION IN TIME FOR THE NEXT MEETING. COMMENT: IN THE CORRIDOR, GENTILHOMME (FRENCH MEMBER OF CEPPC AT NORMAL LEVEL) INFORMED MISSION OFFICER (LOVELAND) THAT HE IS ATTEMPTING TO COME UP WITH AN ACCOUNTING DOCUMENT SHOWING THE MAXIMUM COSTS FOR THE CEPS (INCLUDING FULL LABOR COSTS AND DEPRECIATION) IN ORDER TO

SHOW THAT ANY "PROFITS" OF THE CIVIL MOVEMENTS ARE WELL UNDER THE 20 PCT ON WHICH THE PRESENT TAX IS BASED. HE SUGGESTED THAT THE NEW BASE MIGHT BE 13 OR 14 PCT AND YIELD A TAX OF 6-1/2 - 7 PCT. LOVELAND NOTED THAT IF THE ACCOUNTING WERE DONE IN A TRULY OBJECTIVE FASHION, CONFIDENTIAL

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THE "PROFITS" COULD WELL BE SHOWN NOT TO EXCEED 4 PCT, THUS YIELDING A TAX OF NO MORE THAN 2 PCT. WE AND THE CEOA (CENTRAL EUROPE OPERATING AGENCY) DIRECTOR OF FINANCE (FEINBERG) WILL OFFER OUR ASSISTANCE TO GENTILHOMME IN THIS MATTER. END COMMENT.

2. CHAIRMAN, NOTING THAT TWO OF THE OUTSTANDING FIVE POINTS HAD BEEN RESOLVED, CALLED THE NEXT MEETING FOR 23 SEPTEMBER AND HOPED THAT FRANCE WOULD BE ABLE TO ACCEPT THE WORDING OF POINTS 7 AND 8 WHICH HAD BEEN ACCEPTED BY ALL OTHERS, AND THAT A MORE SPECIFIC FRENCH POSITION WOULD BE AVAILABLE FOR POINT 11 AT THAT TIME. BENNETT

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